

LEASE GUIDE



For EPro and Purchasing Users

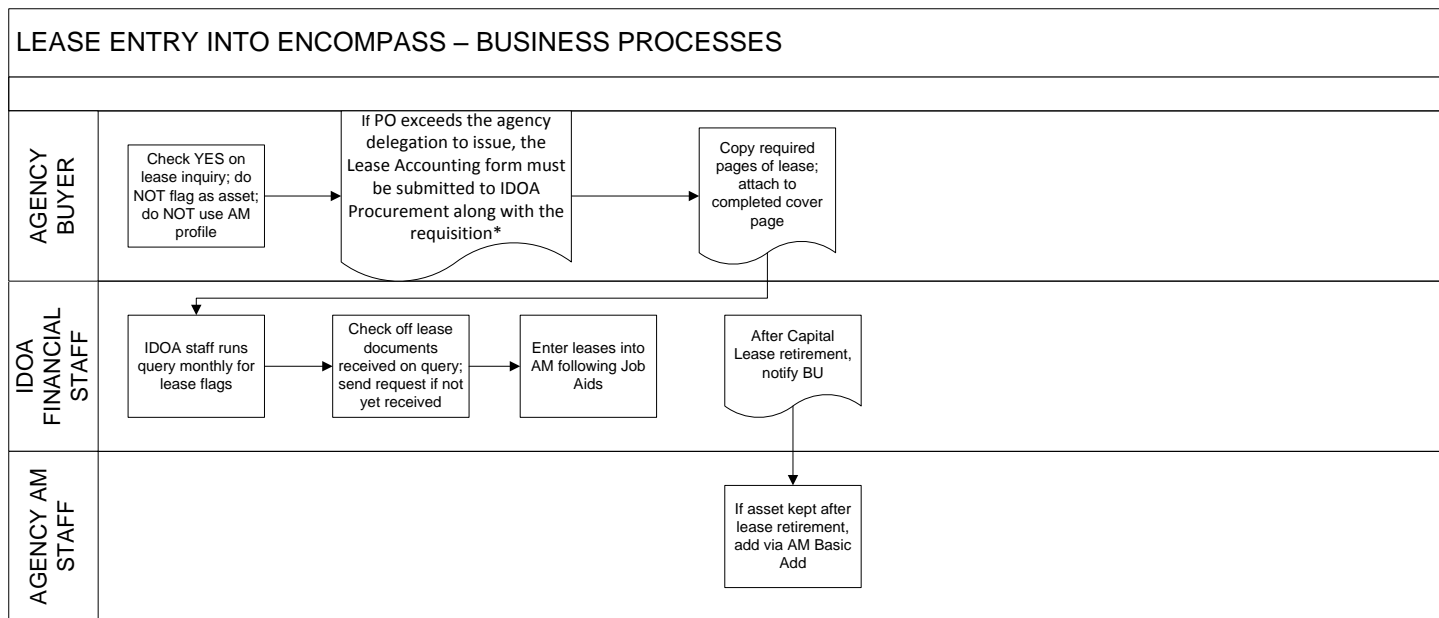
September 16, 2009

STATE OF INDIANA BUSINESS PROCESSES FOR LEASE ENTRY TO ENCOMPASS

The Indiana Department of Administration is, by statute, responsible for maintaining records of leases entered into by state agencies. These records must include financial information required for the state Comprehensive Annual Financial Report (CAFR).

Only the Controller's staff at IDOA are authorized to enter lease information into ENCOMPASS. In order that they receive complete information and leases are not duplicated, others in agencies, beginning with the purchasing process, must follow certain guidelines.

1. PO creator does NOT enter asset profile on PO and does NOT flag as asset; DOES check 'yes' on lease inquiry.
2. PO creator sends, along with the completed Lease Accounting Form, a copy of pages containing EDS, financial information, dates, and purchase options for ALL lease documents to IDOA Controller. Other contract pages are not required. If other than a building lease, PO creator MUST note Location and Custodian of asset being leased. If desired could send electronic copy of lease to IDOA Controller.
3. If PO exceeds the agency delegation to issue, the Lease Accounting form must be submitted to IDOA Procurement along with the requisition with, at a minimum, the following fields completed – Requisition Number, PO Number (if available), Location, Custodian, Signature and Title of BU Representative.
4. IDOA Controller's staff runs query of leases from ePro at the end of each month; they then will check-off those with paperwork received and send a request to agency buyers for those not received.
5. IDOA Controller's staff enters leases into Asset Management following steps provided in Job Aids.
6. To avoid 'tag' issue (tags not required for leased assets), IDOA Controller's staff will enter a series of tag numbers for their use only on capital leases, such as IDOA-L00000001, IDOA=L00000002, etc.
7. After saving the entry, IDOA Controller's staff notes the Lease ID, Asset ID (if applicable) and tag # on lease documents and retains these records in files.
8. At expiration of lease, IDOA Controller's staff retires lease and sends memo to agency, including info on entering the asset through AM Basic Add if leased equipment is kept by the agency.



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To avoid 'tag' issues (agency tags not required for leased assets), IDOA will enter a series of tag numbers for their use only on capital leases, such as IDOA-L000000001, IDOA-I000000002, etc.

*The following fields must be completed – Requisition Number, PO Number (if available), Location, Custodian, Signature and Title of BU Representative.

STATE OF INDIANA – LEASE ACCOUNTING

<i>EDS Number:</i>	<i>EDS Date Prepared:</i>
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Document copies attached:

_____ *Executive Document Summary (EDS)*

_____ *Payment amount/terms page(s)*

_____ *Buyout terms page(s)*

_____ *Signature page*

*If other than building lease, ENCOMPASS Location _____ and
Custodian _____*

<i>Business Unit Number:</i>	<i>Date Processed:</i>
<i>Requisition Number:</i>	<i>PO Number:</i>

Signature and Title of BU representative

This section for IDOA use only

<i>Date Rec'd:</i>	<i>Traced to monthly printout by:</i>
<i>Additional info requested date:</i>	<i>Additional info received:</i>
<i>Entered in ENCOMPASS by (User ID):</i>	<i>Date:</i>

<i>Lease ID:</i>	<i>IDOA Tag Number:</i>
<i>Asset ID (if Capital Lease):</i>	
<i>Lease Expiration Date:</i>	<i>Retired from ENCOMPASS User ID and date:</i>

DETERMINATION OF CAPITAL VS. OPERATING LEASE -- for Epro and Purchasing Users

(FINANCIAL ACCOUNTING STANDARD #13: Accounting for Leases)

The ENCOMPASS financial accounting system has the capacity to perform certain calculations to determine whether leased property (real estate, equipment, or other tangible property) qualifies as a capital or an operating lease. If said property is determined to be a capital lease, it is considered “as if” it has been purchased rather than leased for the term of the lease and must be included as an asset of the State and depreciated accordingly.

An operating lease is not considered as an asset.

Until the related calculations are made by the system in Asset Management, the classification of lease cannot be determined. Thus, for the purposes of a requisition or purchase order, you should avoid the use of a 55xxxx account for a lease. Instead, look in the list of expenditure accounts beginning with 59xxxx for rentals (590xxx for Real Estate Rentals and 591xxx for Equipment Rentals). These expenditures will remain in these accounts in the ACTUALS ledger; those that are determined to be Capital Leases by the IDOA Controller staff will be included as assets (155xxx) in the CAFR ledger.

Please note: It is important to separate maintenance costs from lease payments; accounts in the 533xxx section should be used for all maintenance costs, including maintenance on buildings and office equipment.

The following is an explanation of the calculations which will be made by the system to determine the lease type:

Capital leases – If, at its inception, a lease meets one or more of the following four criteria, the lease shall be classified as a capital lease

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased property¹. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
4. The present value (PV) at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value (FV) at the inception of the lease. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
5. A lessee shall compute the present value of the minimum lease payments using his incremental borrowing rate², unless he knows the rate computed by the lessor and that rate is less than the lessee's incremental borrowing rate.

¹ As determined by the State of Indiana Capital Asset Policy

² As revised annually by the State of Indiana Treasurer

Operating lease – A lease that does not qualify as a capital lease